



Patrick W. Henning, Director
May 15, 2009
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Arnold Schwarzenegger
Governor

Ms. Kathy Kossick, Executive Director
Sacramento Employment and Training Agency
925 Del Paso Boulevard
Sacramento, CA 95815

Dear Ms. Kossick:

WORKFORCE INVESTMENT ACT
FISCAL AND PROCUREMENT REVIEW
FINAL MONITORING REPORT
PROGRAM YEAR 2007-08

This is to inform you of the results of our review for Program Year (PY) 2007-08 of the Sacramento Employment and Training Agency's (SETA) Workforce Investment Act (WIA) grant financial management and procurement systems. This review was conducted by Ms. Mechelle Hayes from May 5, 2008 through May 9, 2008. For the fiscal portion of the review, we focused on the following areas: fiscal policies and procedures, accounting system, reporting, program income, expenditures, internal control, allowable costs, cash management, cost allocation, indirect costs, fiscal monitoring of subrecipients, single audit and audit resolution policies and procedures for its subrecipients and written internal management procedures. For the procurement portion of the review, we examined procurement policies and procedures, methods of procurement, procurement competition and selection of service providers, cost and price analyses, and contract terms and agreements and property management.

Our review was conducted under the authority of Section 667.410(b)(1), (2) & (3) of Title 20 of the Code of Federal Regulations (20 CFR). The purpose of this review was to determine the level of compliance by SETA with applicable federal and state laws, regulations, policies, and directives related to the WIA grant regarding financial management and procurement for PY 2007-08.

We collected the information for this report through interviews with representatives of SETA, a review of applicable policies and procedures, and a review of documentation retained by SETA for a sample of expenditures and procurements for PY 2007-08.

We received your response to our draft report on October 21, 2008, and reviewed your comments and documentation before finalizing this report. Because your response

adequately addressed findings 1-3 and 7 cited in the draft report, no further action is required and we consider the issues resolved. Additionally, your response adequately addressed findings 4 and 5 cited in the draft report and no further action is required at this time. Until then, these findings are assigned Corrective Action Tracking System (CATS) numbers 80221 and 80222. However, your response did not adequately address finding 6 cited in the draft report and we consider this finding unresolved. We requested that SETA provide the Compliance Review Division (CRD) with additional information and/or a corrective action plan (CAP) to resolve the issues that led to the finding. Therefore, this finding remains open and has been assigned CATS number 80223.

BACKGROUND

The SETA was awarded WIA funds to administer a comprehensive workforce investment system by way of streamlining services through the One-Stop delivery system. For PY 2007-08, SETA was allocated: \$3,310,363 to serve 957 adult participants; \$3,447,070 to serve 876 youth participants; and \$2,797,029 to serve 674 dislocated worker participants.

For the quarter ending March 31, 2008, SETA reported the following expenditures and enrollments for its WIA programs: \$2,983,734 to serve 795 adult participants; \$1,992,564 to serve 603 youth participants; and \$1,813,082 to serve 643 dislocated worker participants.

FISCAL REVIEW RESULTS

While we concluded that, overall, SETA is meeting applicable WIA requirements concerning financial management, we noted instances of noncompliance in the following areas: expenditure report, cash management, cost allocation, and subrecipient monitoring. The findings that we identified in these areas, our recommendations, and SETA's proposed resolution of the findings are specified below.

FINDING 1

Requirement: 29 CFR Section 97.20(a)(2) states, in part, that fiscal control and accounting procedures of subgrantees must be sufficient to permit the tracing of funds to a level of expenditures adequate to establish that such funds have not been used in violation of the restrictions and prohibitions.

20 CFR Section 97.20(b)(1) states, in part, that accurate, current, and complete disclosure of the financial results of financially

assisted activities must be made in accordance with the financial reporting requirements of the grant or subgrant.

20 CFR Section 667.300(b)(1) states, in part, that a State may impose different forms or formats, shorter due dates, and more frequent reporting requirements on subrecipients.

WIA Directive WIAD06-4 states, in part, that all WIA grant recipients are required to report expenditures on an accrual basis and must submit quarterly expenditure reports. Quarterly expenditures (including accruals) and obligations must be reported on a cumulative basis and a separate expenditure report must be filed for each line item or grant code. Additionally, accrued expenditures and cash expenditures must be reported separately in quarterly reports. Finally, all subrecipients are required to report expenditure amounts identified for lines 1 (core self services), 2 (core registered services), 3 (intensive services), 4A (training payments), 4B (other training services) and 5 (other) of Section V Cumulative Expenditures (Program).

Observation:

We found that while SETA tracks its expenditures by funding stream (adult, dislocated worker etc.), SETA does not track its program expenditures by the core, intensive, or training categories. Instead, SETA applies percentages, based on the budget plan summary that is part of SETA's WIA Local Plan Modification, to the total program expenditures tracked for each program. Because SETA reports core, intensive, and training program expenditures based on SETA's budget that is not reconciled to actual expenses, SETA is misreporting its expenditures for these categories.

Recommendation:

We recommended that SETA provide the Compliance Review Division (CRD) with a corrective action plan (CAP), including a timeline, to track and report accurate program expenditures by the core, intensive, and training categories.

SETA Response:

SETA reports costs for WIA activities on a monthly basis for all the required categories as evidenced by the JTA system. Direct costs that benefit a specific cost objective are reported in the appropriate cost category. However, shared costs that benefit multiple cost objectives are allocated to cost categories in proportion to the relative benefit received. SETA does not report costs based on SETA's budget, but rather allocates these shared

costs in percentages based on the Board's Resource Allocation Plan.

SETA believes this allocation basis distributes costs in a fair and equitable manner without distorting the results. While there are more common bases that could be used (number of participants, number of enrollments, etc.) SETA believes that a more common base would distort the results and would less equitably distribute the cost of services provided across multiple service levels. While in theory a more accurate basis might be possible, the time and expense spent in developing a basis would be greater than justified by the materiality of the costs to be allocated.

State Conclusion: On February 19, 2009, SETA provided additional information regarding the Board's Resource Allocation Plan. In summary, the Resource Allocation Plan allocates core and intensive costs within a program based on historical data; SETA revises the data quarterly. SETA considers information such as the type of services received and the number of visits per client; much of this information is collected through SETA's SMARTWare system. SETA's One-Stop Centers report costs by program and SETA applies the Resource Allocation Plan derived percentages to report the program costs by category (core and intensive services). SETA processes the training payments (occupational skills, OJT etc.) for all One-Stop Centers so those charges are tracked and reported directly by SETA.

We consider this issue resolved.

FINDING 2

Requirement: OMB Circular A-87, Attachment A (C)(3)(a) states, in part, that a cost is allocable to a particular cost objective if the goods and services involved are chargeable or assignable to such cost objective in accordance with relative benefits received.

OMB Circular A-87, Attachment A (C)(3)(c) states, in part, that any cost allocable to a particular Federal award or cost objective may not be charged to other Federal awards to overcome fund deficiencies, to avoid restrictions imposed by law or terms of the Federal awards, or for other reasons.

29 CFR Section 97.20(a)(2) states, in part, that fiscal control and accounting procedures of subgrantees must be sufficient to permit the tracing of funds to a level of expenditures adequate to establish that such funds have not been used in violation of the restrictions and prohibitions.

- Observation:** We found that the documentation used to support five cash drawdowns (February 29, 2008 to April 14, 2008) from its Youth, Dislocated Worker, Adult and Special Project (grant codes 671 and 674) included Rapid Response expenditures (grant codes 526, 540 and 541). However, SETA had expended all Rapid Response funds by the December 31, 2007 quarterly report.
- SETA staff stated that it will use funds from its annual contract with the Department of Human Assistance (DHA) to pay for the costs of Rapid Response activities after December 31, 2007. However, those funds are not available to SETA until the end of the program year (May/June). SETA staff acknowledged that it borrows funds from its other WIA programs (Youth, Dislocated Worker, Adult and Special Projects) to cover the cost of the Rapid Response activities until it receives the DHA funds. However, at the time of the review, SETA had not yet received the DHA funds.
- Recommendation:** We recommended that SETA provide CRD documentation demonstrating how it reconciled the Rapid Response expenditures paid with other WIA program funds and with funds received from DHA.
- SETA Response:** SETA provided documentation titled "DHA Reallocation" which SETA states demonstrates how it reconciled the Rapid Response expenditures with funds received from DHA.
- State Conclusion:** On February 19, 2009, SETA provided additional information regarding the DHA contract and reconciliation. In PY 2007-08, SETA entered into a \$2.6 million dollar contract with Sacramento County's DHA to share costs related to the operation of the One-Stop centers. Once the contract has been executed and the payment processed, costs that are incurred in operating the One-Stop System are reallocated to the DHA contract. Under the terms of the PY 2007-08 agreement, SETA can allocate up to \$2.6 million dollars; the allocation is based upon the number of participants served and the total operating costs of the One-Stop

System. Additionally, SETA provided copies of the summary reconciliation worksheets.

We consider this issue resolved.

FINDING 3

Requirement: OMB Circular A-87, Attachment A (C)(3)(a) states, in part, that a cost is allocable to a particular cost objective if the goods and services involved are chargeable or assignable to such cost objective in accordance with relative benefits received.

Observation: We found a One-Stop phone bill (dated December 25, 2007) that allocated 50-percent to CalWORKs and 50-percent to WIA based on the number of staff working in those programs. The 50-percent allocated to the WIA programs was charged to the adult program although dislocated worker and youth participants are also served in the One-Stop; this process does not ensure that WIA programs are allocated costs based on the relative benefit received. SETA staff stated that as of March 2007, the One-Stop phone bill is allocated through a WIA pool that allocates the WIA portion to all WIA programs based on total labor hours.

Recommendation: We recommended that SETA review all PY 2007-08 phone bills and reallocate any phone expenditures that were allocated similar to the December 25, 2007 phone bill and provide CRD with documentation of the action taken.

SETA Response: SETA stated that it reviewed its phone bills for PY 2007-08 and re-allocated phone expenditures appropriately. SETA enclosed a copy of a page from its general ledger.

State Conclusion: On February 19, 2009, SETA provided additional information regarding the phone bill reallocation. SETA's general ledger demonstrates that SETA reallocated the PY 07-08 One-Stop phone bills through a One-Stop cost pool.

We consider this issue resolved.

FINDING 4

Requirement: OMB A-87 Attachment A(C)(1)(j) states, in part, that for a cost to allowable it must be adequately documented.

29 CFR Section 97.20(a)(2) states, in part, that fiscal control and accounting procedures of subgrantees must be sufficient to permit the tracing of funds to a level of expenditures adequate to establish that such funds have not been used in violation of restrictions and prohibitions.

20 CFR Section 97.20(b)(1) states, in part, that accurate, current, and complete disclosure of the financial results of financially assisted activities must be made in accordance with the financial reporting requirements of the grant or subgrant.

20 CFR Section 667.300(b)(1) states, in part, that a State may impose different forms or formats, shorter due dates, and more frequent reporting requirements on subrecipients.

WIAD06-4 states, in part, that all WIA grant recipients are required to report expenditures on an accrual basis and must submit quarterly expenditure reports. Quarterly expenditures (including accruals) and obligations must be reported on a cumulative basis and a separate expenditure report must be filed for each line item or grant code. Additionally, accrued expenditures and cash expenditures must be reported separately in quarterly reports. Finally, all subrecipients are required to report expenditure amounts identified for lines 1 (core self services), 2 (core registered services), 3 (intensive services), 4A (training payments), 4B (other training services) and 5 (other) of Section V Cumulative Expenditures (Program).

Observation:

We reviewed SETA's contract payment to four subrecipients and found:

- SETA pays subrecipient invoices without adequate supporting documentation provided by the subrecipient. The subrecipient submits only an invoice.
- SETA's subrecipient invoices do not require the separation of accrued expenditures from cash expenditures as required in the quarterly report. As a result, we were unable to confirm if SETA's subrecipients were reporting accruals within the cash expenditures.
- Three of four subrecipient invoices do not require the subrecipient to report its program expenditures by the core, intensive, and training categories.

Recommendation: We recommended that SETA provide CRD with a CAP, including a timeline, to require its subrecipients to include supporting documentation when submitting an invoice for payment. Additionally, we recommended that SETA revise its subrecipient invoice to require subrecipients to separate accrued expenditures from cash expenditures in quarterly reports and to separate program expenditures by the core, intensive, and training categories.

SETA Response: SETA reports costs on an accrual basis and requires all subgrantees to report on an accrual basis. Subgrantees are reimbursed monthly based on invoices submitted under subgrantee agreements containing detailed line-item budgets and subgrantees are monitored at least twice each year by SETA.

Additionally, SETA stated that it allocates shared costs of the One-Stop system based on the Board's Resource Allocation Plan and WIA subgrantees are included in this process.

State Conclusion: No further corrective action is required at this time. However, we cannot close this issue until we verify, during a future onsite visit, SETA's response. Until then, this issue remains open and has been assigned CATS number 80221.

FINDING 5

Requirement: 20 CFR Section 667.410(a) states, in part, that each recipient and subrecipient must conduct regular oversight and monitoring of its WIA activities and those of its subrecipients and contractors.

WIAD00-7 states, in part, that the onsite monitoring of all subrecipients must occur at least once each program year.

Observation: We found that for PY 2006-07, seven of SETA's thirteen monitoring reviews were conducted 3-5 months after June 30, 2007. For PY 2007-08, five of SETA's sixteen monitoring reviews are scheduled to be conducted 1-3 months after June 30, 2008.

Recommendation: We recommended that SETA provide CRD with a CAP, including a timeline, to ensure that it conducts the onsite monitoring of all subrecipients at least once each program year.

SETA Response: SETA stated that for PY 2008-09, it will ensure that monitoring is conducted for all WIA subgrantees prior to the end of the contract period. SETA will accomplish this by assigning additional staffing resources to monitoring and reviewing its progress on a quarterly basis to ensure that any necessary measures are implemented prior to the end of the contract period (June 30, 2009). SETA provided a copy of its monitoring schedule for PY 2007-08 showing the anticipated completion dates for monitoring.

State Conclusion: SETA's stated corrective action should be sufficient to resolve this issue. However, we cannot close this issue until we verify SETA's successful implementation of its stated corrective action. Until then, this issue remains open and has been assigned CATS number 80222.

PROCUREMENT REVIEW RESULTS

While we conclude that, overall, SETA is meeting applicable WIA requirements concerning procurement, we noted instances of noncompliance in the areas of small purchase and physical inventory. The findings that we identified in these areas, our recommendations, and SETA's proposed resolution of the findings are specified below.

FINDING 6

Requirement: 29 CFR Section 97.36(d)(1) states, in part, when small purchase procedures are used, price or rate quotes must be obtained from an adequate number of qualified sources.

29 CFR Section 97.36(f) states, in part, that a cost or price analysis must be performed in connection with every procurement action.

OMB A-87, Attachment A, Section C(1)(j) states, in part, that for a cost to be allowable it must be adequately documented.

WIAD00-2 states, in part, that small purchase means the acquisition of goods or services that do not cost more than \$50,000 in the aggregate.

Observation: SETA's Procurement Policy and Procedures manual defines small purchase as being less than \$100,000 which does not reflect the State imposed limit of \$50,000. This issue was first identified in the PY 2003-04 fiscal and procurement review.

Additionally, SETA's Procurement Policy and Procedures manual states that, for small purchase procurements of less than \$3,000, only one quote or price is required. Finally, we found a small purchase for \$720 that was procured with only one price/quote. This issue was first identified in the PY 2005-06 fiscal and procurement review.

Recommendation: We recommended that SETA revise its procurement policy and procedures to comply with the State's \$50,000 small purchase limit and update its small purchase policies and procedures to meet WIA small purchase requirements and provide a copy to CRD. We also recommended that SETA perform a cost or price analysis and maintain adequate documentation for all small purchase procurements. Failure to perform a cost or price analysis and maintain adequate documentation may result in disallowed costs.

SETA Response: SETA stated that it is a recipient of federal funds under many different programs and its largest program is the Head Start program and therefore SETA's cognizant agency is the Department of Health and Human Services (DHHS). Since DHHS' programs are not restricted by EDD's small purchase procurement limit, SETA's small purchase procurement policy reflects the \$100,000 federal small purchase limit. However, SETA observes the State's \$50,000 small purchase limit.

SETA stated that 97.36(d) states, in part, that small purchase procedures are those relatively simple and informal procurement methods for securing services, supplies, or other property that do not cost more than \$100,000. The section goes on to say that if small purchase procedures are used, price or rate quotations shall be obtained from an adequate number of sources. The only monetary amount referred in the section is \$100,000; however, at some reduced monetary amount, obtaining a single price or rate quotation is adequate.

SETA stated that the U.S. Department of Labor's Financial Management Technical Assistance Guide (TAG) reiterates this requirement by stating that if small purchases procedures are used, price or rate comparisons from an adequate number of qualified sources. The one example in the TAG involves the purchase of a vehicle for \$31,000 where three price quotes are

compared. However, at some reduced dollar amount, less than three price or rate comparisons would be adequate.

29 CFR 97.36(b) states that grantees and subgrantees will use their own procurement procedures which reflect applicable State and local laws and regulations, proved that the procurements conform to applicable Federal law and the standards identified in this section. Accordingly, SETA's Governing Board has determined that for small purchase procurements of less than \$3,000, one price or rare quote is adequate. SETA states that its policy is consistent with both Federal and State laws and regulations, including the U.S. Department of Labor's TAG and WIA's small purchase requirements.

Nevertheless, SETA will conduct a review of its current small purchase procurement policy in PY 2008-09, including an examination of the small purchase thresholds and whether or not the number of price or rate comparisons is adequate.

State Conclusion: Based on SETA's response, we cannot resolve this issue at this time. Although SETA states that it observes the State's \$50,000 small purchase limit for WIA, it did not revise its procurement policy and procedures to reflect this stated policy. Additionally, SETA states it will conduct a review of its current small purchase thresholds, but did not provide assurances that it would perform a cost or price analysis and maintain adequate documentation for all small purchases. Until then, this issue remains open and has been assigned CATS number 80223.

FINDING 7

Requirement: 29 CFR Part 97, Section 97.20(b)(3) states, in part, that effective control and accountability must be maintained for all grant and subgrant cash, real and personal property, and other assets. Grantees and subgrantees must adequately safeguard all such property and must assure that it is solely used for authorized purposes.

Observation: We found that SETA has 36 monitors, 6 laptops, 12 printers, and 27 computer base units listed as "unassigned" on its equipment list. SETA staff stated that these items were in use, but the equipment list had not been updated to include the assignments; SETA's last physical inventory was conducted April 25, 2007.

Recommendation: We recommended that SETA provide CRD with a CAP, including a timeline, to update its inventory list, provide CRD with a copy of the updated inventory list, and provide assurances that SETA will keep the equipment list updated.

SETA Response: SETA provided an updated inventory list (revised 10-20-08) that now includes user/location identification and/or Tag numbers for all equipment previously listed as "unassigned". Additionally, SETA stated that it reviewed its inventory process with its Information Technology and Fiscal Departments and will review the inventory list at least quarterly to ensure it is kept up to date.

State Conclusion: We consider this issue resolved.

We provide you up to 20 working days after receipt of this report to submit to the Compliance Review Division your response to this report. Because we faxed a copy of this report to your office on the date indicated above, we request your response no later than June 15, 2009. Please submit your response to the following address:

Compliance Monitoring Section
Compliance Review Division
722 Capitol Mall, MIC 22M
P.O. Box 826880
Sacramento, CA 94280-0001

In addition to mailing your response, you may also FAX it to the Compliance Monitoring Section at (916) 654-6096.

Because the methodology for our monitoring review included sample testing, this report is not a comprehensive assessment of all of the areas included in our review. It is SETA's responsibility to ensure that its systems, programs, and related activities comply with the WIA grant program, Federal and State regulations, and applicable State directives. Therefore, any deficiencies identified in subsequent reviews, such as an audit, would remain SETA's responsibility.

Ms. Kathy Kossick

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May 15, 2009

Please extend our appreciation to your staff for their cooperation and assistance during our review. If you have any questions regarding this report or the review that was conducted, please contact me at (916) 653-7541 or Ms. Mechelle Hayes at (916) 654-7005.

Sincerely,

A handwritten signature in cursive script, appearing to read "Jessie Mar".

JESSIE MAR, Chief
Compliance Monitoring Section
Compliance Review Division

cc: Jose Luis Marquez, MIC 50
Daniel Patterson, MIC 45
Roger Schmitt, MIC 50